

Verizon v. Vonage and Sprint v. Vonage: **A Tale of Two Patent Infringement** **Cases and Their Impact on the VoIP** **Industry**

By Kristie D. Prinz, Founder
The Prinz Law Office

State Bar of California Annual Meeting
September 29, 2007

Background to *Verizon v. Vonage* Patent Infringement Case:

- Vonage held IPO on May 23, 2006
- Verizon files complaint against Vonage in U.S. Court for the Eastern District of Virginia alleging patent infringement in June, 2006
- Verizon apparently gave Vonage no prior notice of potential claims

Verizon v. Vonage: Verizon Patents Claimed to be Infringing in Case

- Seven Verizon Patents at Issue in Case
 - Two network patents (commercial scale VoIP telephony): U.S. Patent Nos. 6,137,869 and 6,430,275
 - One public wireless/cordless handset patent: U.S. Patent No. 6,359,880
 - Four feature patents (e.g. voicemail in VoIP): Patent Nos. 6,128,304; 6,298,062; 6,104,711; 6,282,574

Verizon v. Vonage: Elements of Patent Infringement Complaint

Verizon Services Corp. Vonage Holdings Corp., 2007 U.S. App. LEXIS 26714 (D. Va. 2007).

- Verizon asked for \$197 Million in Damages; finding of willful infringement
 - Included reasonable royalty payment of \$4.93 per Vonage line per month of service
- Asked Court to grant permanent injunction

Verizon v. Vonage: Jury Verdict

- **March 8, 2007:** Jury found on that Vonage had infringed three of the seven patents: Patent Nos. 6,359,880; 6,104,711; 6,282,574
- Ruled that Vonage must pay \$58 million in damages, plus 5.5% royalty rate on any sales going forward
- Issue of permanent injunction still pending

Verizon v. Vonage: Permanent Injunction Hearing

- **March 23, 2007:** Hearing held on permanent injunction issue.
 - Judge issued order for permanent injunction barring Vonage from using the infringing VoIP technology
 - Vonage barred from signing new customers, allowed to operate with existing customers
- **April 6, 2007:** Injunction appealed but upheld
 - U.S. Court of Appeals for Federal Circuit intervened; granted emergency stay

Vonage v. Verizon: Hearing on Request for Expanded Stay

- **April 24, 2007:** U.S. Court of Appeals for the Federal Circuit granted Vonage's request to extend stay pending appeal of case
- Vonage allowed to continue signing up new customers

Verizon v. Vonage: Verizon Remand Request for New Trial

- **May 1, 2007:** Vonage asks U.S. Court of Appeals for the Federal Circuit to delay appeals process while court rules on motion for new trial, based on Supreme Court's decision in *KSR International Co. v. Teleflex, Inc.*, 127 S. Ct. 1727 (U.S. 2007)
 - *KSR v. Teleflex*: Invention cannot be patented if obvious to those with knowledge of skills
- U.S. Court denies request for new trial

Verizon v. Vonage: Appeal of Jury Verdict

Verizon Services Corp. Vonage Holdings Corp., 2007 U.S. App. LEXIS 22737 (Fed. Cir. 2007).

- **June 25, 2007:** Hearing before U.S. Court of Appeals for the Federal Circuit
- **September 26, 2007:** U.S. Court of Appeals for the Federal Circuit affirmed that two of three patents were valid and infringed; held injunction had been properly granted based on test in *eBay, Inc v. MercExchange, L.L.C.*, 126 S. Ct. 1837 (U.S. 2006).

Verizon v. Vonage: Vonage Appeal of Jury Verdict

Third patent 6,359,880:

- Federal Circuit vacated and remanded for new trial
 - Found claim construction errors: question of whether prejudicial error occurred
 - Found potential errors in jury instruction on *KSR v. Teleflex* obviousness doctrine: question of whether prejudicial error occurred

Verizon v. Vonage: Vonage Appeal of Jury Verdict

- Damage award vacated because the jury verdict did not apportion damages among three patents; no way to separate out third patent 6,359,880
- Remanded to district court for further consideration of damages issue

Background to *Vonage v. Sprint* Patent Infringement Case:

- Filed in October 2005 in U.S. Court for the District of Kansas
- Also filed against two other VoIP service providers (Voiceglo Holdings Inc. and theglobe.com Inc., parent of Voiceglo)
- Pre-dates IPO, *Verizon* Complaint
- Sprint declined to comment as to whether it had approached defendants before filing suit
- Sprint in negotiations to purchase Vonage

Sprint v. Vonage: Sprint Patents Claimed to be Infringing in Case

- Seven Sprint Patents At Issue in Case
 - Three Broadband Patents ('301 Family Patents): U.S. Patent Nos. 6,473,429; 6,665,294; 6,298,064
 - Four Communication Control Patents ('605 Family Patents): U.S. Patent Nos. 6,452,932; 6,304,572; 6,463,052; 6,633,561

Sprint v. Vonage: Elements of Patent Infringement Complaint

Sprint Communications Co. v. Vonage Holdings Corp., 2007 U.S. Dist. LEXIS 69737 (D. Kan. 2007).

- Sprint asked for unspecified amount of compensatory and enhanced damages
- Sprint also asked for preliminary and permanent injunction restraining any further sales or use of infringing products and/or services and any other infringement of Sprint's patents

Sprint v. Vonage: Jury Verdict

- **September 25, 2007:** Jury found that Vonage infringed on six of the seven patents claimed to be infringed
 - Ruled that Vonage must pay Sprint damages in the amount of \$69.5 million and a 5% royalty on future sales
 - Injunction Issue Still Pending

Impact of Two Patent Infringement Cases on Vonage

Is Vonage Bankruptcy Imminent?

- Some industry observers on Vonage deathwatch
- Vonage still signing customers, but only 57,000 new subscriber lines during recent quarter compared to 166,000 in Q1 of fiscal 2007 and 256,000 in Q2 of fiscal 2006
- Net loss for recent quarter \$33.6 million; \$286 .1 million in 2006; has \$248.2 million debt due 2010

Impact of Two Patent Infringement Cases on Vonage

- Paid \$6 million in patent legal bills; cutting marketing costs and office expenses to deal with losses
- Company says it is developing workarounds: how close?
- Shares dropped from \$17.00 at IPO to under \$1.00

Impact of Cases on the VoIP Industry

- Cases underscore need for a strong defensive patent strategy to compete in market: Vonage was easy target because of weak patent portfolio
- Some Industry Observers Argue that Cases are Example of Patent Abuse: Argument for Patent Reform?
- Cable Companies Gaining VoIP Market Share

CONTACT INFORMATION

Kristie D. Prinz, Founder

The Prinz Law Office

P.O. Box 1594

Los Gatos, CA 95030

kprinz@prinzlawoffice.com

www.prinzlawoffice.com

Phone: 408.884.3577 Fax: 408.317.0316